Russianizing American Credit and Currency Would Endanger Victory

Banker Says It Is Foolish for the Public to Continue to Delude Itself About Inflation, and That We Must Save and Tax to Provide the Sinews of War and Not Follow Devious Methods of Emergency Finance

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CLEARLY we understand that participation in a world war is a piece of extravagance which cannot be paid for out of normal income. We may be satisfied—in fact, we are firmly convinced—that such governmental extravagance is justified, that it is essential, that we would not have it otherwise. It really is not extravagance at all except for the picture which that word paints of the relationship of present national expenditure to normal sources of income. Quite as clearly we know that the government, being merely ourselves politically incorporated, enjoys no income except that which it derives from us through taxation of our incomes, or by borrowing portions of our stores of capital. But only vaguely do most people understand the significance of the devious and indirect methods of obtaining our capital without borrowing from us openly. Our financial strength has often been spoken of as limitless. Perhaps it is well to know the facts regarding the current cost of our participation in the war, whence the money has come to finance it thus far, and whence and how it must and should come hereafter to carry to successful completion the vast undertaking in which we are engaged.

A Pacific Democracy

In the early spring of 1917 the United States of America, the only world power not participating in the great conflict, was, as every one is aware, entirely unprepared for active participation. Our army was pitifully inadequate in point of numbers and equipment. Our navy, which had been second only to that of Great Britain shortly after the Spanish War, had not kept pace with its rivals. Our air service practically did not exist. In spite of ample resources in men, materials and money, we labored under handicaps inseparable from a pacific democracy, namely, lack of organization, lack of discipline and, as pitiful as the size of our army, lack of comprehension. Suddenly the nation was plunged into a war exceeding in scope anything before conceived possible, making unprecedented demands upon the national life and wealth, and waged against an opponent strong, unscrupulous and determined. The task facing the country became one of transforming into a war machine capable of victory a peaceful agricultural and industrial population, unprepared, unaroused, and scattered over the wide expanse of a country three to six thousand miles from Flanders.

Transition From Peace to War

The broad outlines of what has been accomplished we all know. The army has been raised from about 200,000 men in April, 1917, to over 1,500,000. Ten million men have been registered under a universal service act that will prove a lasting monument to a self-governing people. The Secretary of War states that a half million men will be in France this spring and that another million will cross the Atlantic this year. The navy's personnel has multiplied to 300,000. Feverish construction of small naval vessels has proceeded, and, as to destroyers at least, we are told, their number will soon exceed that of any navy afloat. After heart-breaking dedays, millions of tons of shipping are under construction. Enemy shipping has been commandeered; 250,000 miles of railroad have passed to Federal control; prices of materials and commodities have been fixed; regulation of industry undertaken. An extensive air programme is being carried out. Billions of dollars have been loaned to our allies. These and a thousand other things have marked the progress of the nation toward the condition where it will become a military power of decisive strength.

The Money Cost of War

This preparation for, rather than participation in, the war from the beginning of April, 1917, to the end of February, 1918, cost the country considerably over eight billions of dollars. Of this total about $4,500,000,000 consisted of loans to our allies, about $2,350,000,000 of expenditures for the army, about $800,000,000 of expenditures for the navy, and most of the remainder for the construction of merchant shipping. The greater part of this money has been raised by the flotation of the two Liberty Loans, the total proceeds of the two issues being $5,808,000,000. Taxes to the end of February are estimated to have yielded about $520,000,000, while a billion and a quarter, not yet due, has been collected through the sale of certificates of indebtedness. The sale of war savings certificates and thrift stamps has yielded about $75,000,000. In anticipation of the third loan, about $1,400,000,000 of additional certificates of indebtedness had been placed by March 1. Exclusive, therefore, of the money raised by these certificates, anticipating the next loan, the government has actually collected for war purposes a total of about $7,650,000,000.

Thus far the government has had little difficulty in financing its requirements, extraordinary as they are. But it does not follow that the outlook for the future is satisfactory. Expenditures for war purposes have run far under estimates, not because war has been found less expensive than anticipated, but because money can be raised—rather book credits created—more rapidly than production can be speeded up. Money could not be spent for Browning machine guns merely by appropriating it for that purpose when no factory in the country stood in a position to turn them out. Construction of merchant shipping could not begin until it was decided whether the ships should be of wood or of steel, the plants located, the materials arranged for and the labor obtained. The discrepancy to date between costs and estimates affords no cause for congratulation. The bill must be paid sooner or later. Even this spring belated construction will add enormously to expenses.

Rate of Expenditures

We are now expending for war purposes about $40,000,000 a day, or at the annual rate of nearly $15,000,000,000, and the rate is increasing. It is true that $10,000,000 or more a day is being loaned to our Allies and will be repaid, but the task of raising the money remains. Early estimates of expenditures for the entire first year of the war—say, to April 1, 1918—reached figures as high as $19,000,000,000. Appropriations and contract authorizations for the fiscal year to end June 30, 1918, total $21,390,730,940. This total includes $7,000,000,000 of loans to the Allies. Of the grand total of appropriations and contract authorizations of $21,390,730,940 to June 30, 1918, there has been raised so far, by all methods, over $9,000,000,000. Some weeks ago the Secretary of the Treasury made the statement that ten billions had to be raised prior to June 30. Deducting the $1,400,000,000 since raised by certificates in anticipation of the next loan, nearly $9,000,000,000 needs to be raised by June 30. Of the grand total, the balance of about two and one-half billions presumably consists of authorizations where the actual expenditures will not be made prior to the end of the government's fiscal year.

Forty Billions In Two Years

It is probably safe to estimate that the war will cost us to June 30, 1919, not less than $40,000,000,000. This, of course, figures for the government's fiscal year, July 1, 1918, to June 30, 1919, expenditures of something less than $20,000,000,000. The estimate is hazarded only on the theory that during the first fiscal year of the government, while we are engaged in the war, some large portion of the expenditures has been required for preparatory work only, which may not have to be repeated in the following year. Nevertheless, if the experience of the other belligerents shall prove to be any guide, it is much more likely that next year's expenditures will exceed those for the current year.

Methods of Raising Money

With an approximation of the financial requirements in mind, let us consider the two ways by which what we colloquially call "money" can be directly raised—through taxation or by the use of the credit of the government. There is a limit to the amount that can safely be raised by taxation. Exactly what that figure will be no one can tell. It is plain that taxation has already been carried far enough to make considerable inroads on our personal and corporate incomes, and that it can be carried to such a point as to provoke industrial paralysis, and thus defeat its own ends. Official estimates indicate that the proceeds of income taxation, excess profits taxation and all forms of internal revenue for the fiscal year to end June 30, 1918, will total $3,400,000,000. Of this total estimated war taxes will furnish $2,534,870,000. Taxes evidently will supply only a small portion of the annual war expenditures which must be financed. Great Britain has applied the method of taxation to the payment of as large a portion of the expense of carrying on the war as has seemed consistent with the full maintenance of her industrial activity. The results achieved have been noteworthy. Yet Great Britain has been able to pay for only about 15 per cent of the war's cost by taxation. In the case of the other European belligerents the percentage is much smaller. Most thoughtful men agree that our own government showed wisdom in adopting heavy taxation as a method of paying some reasonable part of the costs of the war.

Must Face The Facts

Some conception of the magnitude of our financial task will be furnished by the statement that Great Britain's average daily expenditure for the last three years has run about $22,000,000, or not much more than half of our present daily rate. And the United States has been engaged in the war for less than a year. It will do no good to blind ourselves to the facts and the probabilities. After the manner of our best traditions, let us face them cold, stark and naked. When we know the size and the nature of a job we can put our shoulders to the wheel and start something that will keep moving. Concretely, our government faces the necessity of borrowing $10,000,000,000 within a few months, and from five to ten billion dollars additional before the calendar year 1918 is out. This will have to be done through the sale of various forms of government obligations, principally bonds, although comparatively small but increasing amounts will be derived from the sale of Thrift Stamps and War Savings Certificates. The vital question is: How can these loans be floated?

The Russian Spectacle

Let us turn to a consideration of some of the devious and indirect ways by which the government, were we complaisant, could draw on our stores of capital. What would happen were we to try to tunnel our way laterally out of a deep hole in a valley, instead of making real efforts to get out over the top of the hole? We can tunnel laterally by having the government print irredeemable paper money and force it into circulation. But the inevitable effect would be to drive out of circulation good money, to depreciate the purchasing power of currency and to cause commodity prices to rise, as measured by the dollar that would be current. The issuance of greenbacks during the Civil War and its results is a pretty well known example of this policy in our own history. The recent spectacle of Russia, printing paper rubles by the billion, has shown again the disastrous consequences of the stupid and easy method. Nowadays, business men generally recognize that the enforced circulation of currency beyond immediate requirements, as a medium of exchange, can lead to only one result—a period of inflation, the outstanding feature of which is the declining purchasing power of each unit of the medium of exchange, or, stated differently, rising prices for goods and commodities.

Dangers of Credit Inflation

A less obvious application of the devious and indirect method of drawing on our current or stored up supplies of capital—i. e., goods and services, not money—lies in an expansion of the loans of the banks. In effect checks circulate as currency. Any increase in the volume and the velocity of the circulation of checks causes similar relative effects on the prices of goods and the currency value of services as does an increase in other forms of circulation. Credit against which the government can check may be created in a number of ways. The Secretary of the Treasury presently is doing it by selling certificates of indebtedness to the banks. So far the saving quality of these transactions lies in the fact that they have been made in anticipation either of taxation shortly to become payable or of government bond issues soon to be floated.

We have devised still other ingenious methods of lending money to the government without lending it. During the period when subscriptions to the Second Liberty Loan were being taken the banks provided an easy method of subscribing by making loans secured by the bonds as collateral. Up to date a comparatively small proportion of those loans has been reduced or paid off. When the loans were made the expectation was that reductions in amount would be made fairly rapidly out of future savings, so that the total would be dwindling to small figures before the next bond issue should be made. It now appears that we shall enter the campaign for subscriptions to the third issue of bonds with a considerable volume of such loans still outstanding. Credit expansion to finance the war already exists.

Effects of Rediscounting

The notes given against loans secured by Liberty bonds are rediscountable at the Federal Reserve banks. To the extent that rediscounting is done, the expansion of loans passes on to the Federal Reserve banks, and the effect on commodity prices remains the same. Should the situation require it, Federal Reserve banks turn over this rediscounted Liberty Loan paper to Federal Reserve agents and take out Federal Reserve notes against it, paying these out. In the last analysis then, when a subscriber to a government loan borrows from his bank, ultimate payment for the goods and services which the government needs may take the form of Federal Reserve notes, and again prices are stimulated. The banking fraternity will be loath, as a practical matter, to avail itself extensively of this last-named method of turning loans into currency.

Fallacies of Hun Finance

New government loans are coming along. If a large proportion of subscriptions to future bond issues shall be made by means of loans at the banks, and the bulk of such loans shall not be paid off between bond issues, we shall be following a course as vicious as that followed by Germany, where an inverted pyrimad of credit paralyzes that country's normal business activities and darkens the sky of its economic prospects after the war. It is bound to be harmful to the whole situation to have such loans accumulate—to remain unpaid or unreduced. With the advantages of our Federal Reserve banking system, no doubt the banks could carry such a burden for a long time; but they should not be required to do so. In financing the government they should be agencies only. Their possession of deposits is vicarious; they should not be principals, actually or substituted, in such transactions.

Dodging The Issue

No good is accomplished by saying that mistakes have been made, that we must finance the war by inflation, that the banks are able to carry the burden and should do it. Such an attitude merely begs the question to the extent that it is not true. Grant, if you like, that it was a mistake, shortly after the beginning of the war, to regulate the prices of some commodities so low that profits have been seriously limited and to that extent are not available for investment in government bonds. It might have been better at the outset of the war to have fixed prices at about the level then prevailing so as not to have restrained production, and then to have used regulation merely as a means of applying the brakes. The fact remains that on the whole profits continue to be substantial, and that too small a proportion of them has been invested in government obligations. Grant that the taxation so far imposed is heavy. The imposing of these taxes cannot be called a mistake, for already the most careful students are wondering whether it will be necessary to defray a still larger part of the cost of the war out of taxes.

Great Demand Is Inevitable

The truth of the matter is that the government of the United States States must and will obtain the money or the credit necessary to finance the war; if not in one way, then in another. The difference between the $2,500,000,000 raised by war taxation plus the amount of government loans which can actually be absorbed out of savings on the one hand, and, on the other, the total annual requirements for the war's expenditures, is bound to find its outlet through some form of credit expansion.

Aside from all other phases of the question, the more rapid circulation of checks, book credits and Federal Reserve notes creates immediate additional buying power, which in turn competes with the more or less unreduced buying power of individuals. Suppose the government obtains credits against which it can check from the sale to the banks of certificates of indebtedness or Liberty bonds, or from the proceeds of Liberty bonds carried for depositors, and suppose individuals continue to buy goods and to employ labor as they have been accustomed to do in the past. The government and the individual consumer struggle with each other to obtain the same goods or different goods made by the same labor. The volume of goods being strictly limited by the amount of labor available, when neither purchaser gives way to the other, neither obtains all of the goods he needs or wants.

The result is twofold: The government pays more for the goods and services it needs, and thereby the winning of the war is deferred or endangered, and the individual consumer pays more for the commodities required to satisfy his wants, and his own self-interest is injured.

Folly of Self-Delusion

It would seem that the mere statement of the facts in this way would be sufficient to make the American public see that it is a "fool proposition" to continue to delude itself. That there should be an authoritative statement on this subject, the Treasury Department has recently made public a report of a special committee of the American Economic Association, in which occurs the following paragraph: "While the war lasts the commodity price level will inevitably mount by leaps and bounds unless we adopt rigorous preventive measures. In particular we must avoid, so far as possible, lending by borrowing. Loans to the government made not from savings but from borrowings will tend to increase bank credit. Further extension of bank credit will chiefly bring about a rise in commodity prices."

The normal annual savings fund of the people of the United States available for the purchase of government bonds is estimated variously. The figures accepted as most nearly accurate indicate that our gross annual income in 1917 totalled about $50,000,000,000. Out of this total it is estimated that our savings ranged from six to ten billion dollars. In view of the economic adjustments under way and the curtailment of profits in many industries, it would be surprising if the figures of gross annual income or of savings in 1918 should equal those of 1917. Certainly it does not seem to be safe to count on normal savings this year of more than six billion dollars. Especially does this seem to be true considering the utterly inadequate scale on which individual economy presently is practised. The only way in which total savings can be increased lies in the direction of unusual efforts to reduce consumption. For the sake of our national financial health, it is out of the surplus of production over consumption that government loans ought to be paid for.

War Taxes Insufficient

The plain unvarnished fact is that annual war taxes of, say, $2,500,000,000 plus *normal* annual savings, of, say, $6,000,000,000, or a total of, say, $8,500,000,000, promise to be wofully insufficient to take care of the fifteen to twenty-billion-dollar war expenditure requirements of the government for the calendar year 1918. Another plain unvarnished fact is that to the extent that these two sources of revenue shall not prove sufficient all of the preaching of economists will not prevent the inflation and its attendant economic evils which have proved to be more or less inseparable from the conduct of all wars. The conclusion is inescapable that the amount of credit expansion will depend inversely upon the excess of production over private consumption, or *real savings*, and the extent to which these savings shall be turned over to the Federal government.

Banking And Industry

Here is a matter of vital significance to every man, woman and child in this country. The man who is able to lend his savings to the government in one form or another and does not do so is not only unpatriotic, but he is helping to raise the cost of his own food and rent. The man who can save more than he does and who fails to turn the additional saving over to the government likewise contributes to the postponement of victory and to his own discomfort in the rising cost of living. The greater the production of essential goods and the lower the scale of individual consumption—even to the point of self-denial—the greater the placing of all surplus funds at the disposal of the government, the less will be the amount of inflation necessary, the sounder will be the banking and the industrial condition of the country, and, last but not in every sense least, the cheaper will be the cost of living to the individual.

Patriotism Plus Common Sense

It is not only a matter of patriotism, it is not only a matter of securing a good return on the safest security in the world, that should induce people to subscribe to United States government war bonds. It is a matter of vital self-interest wherein everybody can do splendid teamwork to help himself as well as his neighbor to keep down the cost of living, or at least to keep it from going to dizzy and painfully burdensome heights.

Every man should take these things to heart. He should prepare immediately to subscribe to the next issue of government bonds to the limit of his present savings, and in addition to the limit of the funds which he can save by consuming less. It will be much better as a practical matter to go the limit to win the war now, while we have the help of the Allies, than to have to defeat Germany alone. For, if necessary, we are going to do just that!

All Bond Values Drop During War Time

The Ups and Downs of Government Issues in All Countries Follow the Same General Fundamental Tendency, Historical Sketch Shows

GOVERNMENT bonds, like people, act pretty much like one another under similar conditions. Whether they are French, English, German, Russian, Japanese, American or any other nationality, people will act according to well established psychological traits, laughing at about the same thing, crying over similar events and manifesting fear under given situations. Corresponding to human temperament, the market value of government bonds is also subject to well defined changes, and one of the most consistent similarities of conduct which history shows to be true of them is their habit of temporarily going down on account of war.

Sometimes they do so to an alarming extent, no matter how stable the government that issued them is, no matter how rosy its military situation, and no matter how unimpaired the resources behind the securities may be, guaranteeing the prompt payment of their interest and their redemption for full face value at maturity.

But just as consistently as history shows that government bonds go down during the war no less does it record that their usual habit has been not only to recover to their original prices, but also, in many instances, to rise to a marked degree above it after the end of the war. This recovery has been manifested even by bonds of a nation suffering a severe defeat, involving serious impairment of the equity behind its bonds through the loss of national territory and through the obligation forced on it to pay the conquering nation large indemnities.

Second Liberty Bonds Follow Precedents

At present the second Liberty bonds are quoted in the market at about 96. Taken as a detached condition, without regard to history, and looked at simply from the narrow pocketbook point of view, the fact that something you paid $100 for a short time ago will bring you only about $96 at the present moment may seem to be disquieting. But it simply means that United States bonds are now doing what the bonds of all nations do in war time.

Our bonds have depreciated to a lesser degree than most government bonds have done under similar circumstances. One instance may be cited where the bonds of a foreign government went down to almost 50 during a war, but, although that nation suffered a crushing defeat and tremendous material losses, within a comparatively few years after the war was ended those same bonds went up to more than 105.

The fact that your $100 Liberty bond is now selling for about $96 does not in any sense imply a loss of intrinsic value or uncertainty either as to its principal or interest. It implies merely that because of a complexity of economic factors your government bond is normally following the way of its historic antecedents. Even though Liberty bonds have thus fluctuated to prices below par, there has been absolutely no fluctuation in the fact that the government will go on paying the promised interest on them without delay as it falls due, nor in the fact that when the time comes it will redeem them at the full face value, regardless of the ups and downs in the market quotations meanwhile.

These changes in the market quotations of government bonds during wars are, in the history of nations, analogous to what the rise and fall of the thermometer is to the weather. Just as you can tell the change in the temperature by watching the fluctuations in the height of the column of mercury, an expert in finance could almost tell the historic changes of a country from peace to war merely by looking at the fluctuations in the column of government bond quotations year by year. He could make a pretty fair guess that the country was at war when bond prices suddenly dropped and fluctuated below the prices of previous years and then in succeeding years returned to their former levels or higher.

War Conduct of English Consols

Take the case of Great Britain. Her national debt is funded in the consolidated annuities or bonds, popularly known as "consols." The fluctuation of these consols in response to England's wars, big and little, are typical of the conduct of government bonds. During the Napoleonic wars, 1793 to 1815, consols fluctuated downward notably. In 1792 they were quoted at 97. France declared war on Great Britain in 1793, and consols fell to 70½. In 1797 they dropped to 47½. The next year they went down to their lowest price, 47¼. In 1802 they rose to 79, but in 1814 their highest quotation was only 67½, and they touched a low point for that year of 54½.

In the last year of the war they were 65¾, but after the Battle of Waterloo, June 18, 1815, the general curve of their market quotations showed an upward tendency. In 1817 the range was from a high of 84¼ to a low of 62. In the succeeding years radical shifts took place in England's political and industrial life, placing severe strains on the country, but the rise in consols continued. In 1824 they touched 97. In 1844 they crossed par to 101⅜. In 1852 the range was from a high of 102 to a low of 97⅞.

This upward trend of consols persisted in the face of great internal changes which virtually amounted to a revolution in the whole life of England. Their firmness, however, at once gave way before a war, even of a comparatively minor sort. The Crimean War came in 1853-'56 and the Sepoy Rebellion in 1857, and consols went down accordingly. In 1853 the high was 101, the low 90¾; in 1854, the high 95⅞, low 85¼; 1855, high 93¾, low 86¼, and in 1856, which brought the end of the Crimean War, the figures turned upward, the high being 95⅞, the low 85⅜. But this upward trend was not fully maintained in the face of the Sepoy Rebellion, for in 1857 the high quotation dropped somewhat, being 94¼.

The next year consols tended up again sharply, and they reached their maximum in July, 1896, of 114, the low that year being 105¾. In 1897 and 1898 they kept within about an eighth of a point of these figures.

But the Boer War of 1899-1901, in its turn, brought on a marked drop in consols. In 1899 the high was only 111½, the low 97¾; in 1900 they swooped down to 103½ for the high, 96¾ for the low, and in 1901 still downward to 97⅞ for the high, 91 for the low.

Franco-Prussian War Depressed Rentes

Wars, of course, are not the only force depressing government bond prices. They respond to general financial depression, and consols since the Boer War have continued to go down gradually, attributed partly to the depreciation of the purchasing power of money in the last ten years and the absorption of capital in industrial and foreign loans. In 1914, however, a slight upward tendency appeared, but it was arrested by the outbreak of the present war. In 1913 the high for consols was 75⅝, the low 71⅛; in 1914 the high had gone up to 80¾ in the peaceful part of the year, but a low point of 68 was registered that year on account of the war. In 1915 the highest point was only 76½ and the low was down to 54, and in 1916 the high was 62¼ and the low only 50. In 1917 the high was 56⅜, the low 51.

The history of French government bonds, or rentes, records similar war reactions. As in England, the French government debt is mainly in the form of a perpetual funded debt. In 1830 French rentes were above par, going in that year to 102. The July Revolution of 1831 caused a sharp decline to 84. But this was only comparatively temporary, for by 1845 the 5 per cent rentes were selling at 122.85, the 4s at 110.5 and the 3s at 86.4.

The Revolution of 1848 caused the 5s to drop to 50, and the 3s to 32½. After that there came a steady upward tendency until 1867, when the 3s reached 75.10. Then came the disastrous Franco-Prussian War, 1870-'71. The 3s dropped to 50.35 as a result of this war. In the period subsequent to this, although France had been defeated, losing Alsace-Lorraine and having to pay a $1,000,000,000 indemnity to Germany, and although there were two funding operations reducing the interest rate, nevertheless the price of France's bonds continued to rise until 1897, when they reached their maximum of 105.25. The present war, as was to be expected, has again sent them plunging downward. In 1914 the high was 88, the low 76.5. In 1915 the high was only 69.5, the low 56.5, and in 1916 the high was 58, the low 52.5. In 1917 the range was 55.5 to 53.25.

Prussian bonds also reflected and registered the existence of the Franco-Prussian War. In 1869 the bonds of the Prussian state debt were quoted at 81⅜; in 1870 they went down to 78½. But Prussia's bonds showed a rapid recovery in keeping with the rapidity of her military success, rising in 1871 to 83¼ and in 1872 to 90½. And having won Alsace-Lorraine and $1,072,237,873 in indemnities in the war, Germany was enabled to wipe out her debt, with a half billion dollars to spare, so that the disturbing effect of war on her bonds was minimized. They have felt, however, the full effect of the present war; in 1914 Prussian 4s recorded a high of 86 and a low of 81; in 1915 the high was 65¼, the low 52¾, and in 1916 the high was 58⅛ and the low 50¼. Other German government bond issues show corresponding downward fluctuations.

Japanese Conditions Slightly Different

In 1899 Japan borrowed in England $48,000,000 on 4 per cent bonds put out at 90. Within a year these bonds went up to 105, but during the Russo-Japanese war they dropped to 97½. They were redeemed in 1910 and 1912 before their normal post-war recovery was fully felt. In the present war, although Japan has been able to reduce her national debt, being the only warring nation able to do so, nevertheless her bonds have not escaped the depreciation in market quotations exacted by war of all government bonds.

In 1913 Japan's sterling 4 per cent loan of 1899 was quoted at a high of 83¾ and a low of 77¼. In 1914 the range was 78¾@72; in 1915 it was 74½@62, and in 1916 a slight rise was manifested, the range being 75⅜@67½. Similar fluctuations were manifested by other Japanese government bond issues.

Various issues of United States government bonds showed similar fluctuations during the Civil War. The United States 6s of 1868 were quoted at a high in 1860 of 109½, and a low of 96. In 1861, the first year of the war, their high was only 100, and the low was 86. In 1862 they partially recovered, the high being 107⅝, the low 85. The 5s of 1865 also dipped. Their high price in 1860 was 103; in 1861 it was 92; in 1862 it was 99 and in 1863 it was 127. The low quotations followed a parallel course.

In other issues downward fluctuations were recorded, although a special factor came into play preventing this from being as marked as it otherwise would have been. This factor was that the bonds could be purchased with legal tender notes or greenbacks, whereas the interest on them was paid in gold. The average gold value of greenbacks in 1862 was only 88.3 per cent. Thus bonds, nominally paying 6 per cent, yielded when purchased with this depreciated currency an actual interest return of 6¾ per cent on the investment. In 1864 greenbacks fell to a gold value of only 49.2 per cent, so that the yield on government bonds bought with them was actually about 12 per cent, and this yield was greater at different periods of the war.

In view of this condition, the full significance of the fluctuations in government bonds in that period is not as obvious as in other instances cited, but nevertheless marked dips in the market quotations are visible on the face of the records. The 6s of 1881 were quoted at a high of 118 and a low of 102 in 1864. In 1865 the high was only 112⅞ and the low 103½, but next year there was an advance, and by 1868 the high was 118⅛ and the low 108⅝.

Fluctuations by Month in Spanish-American War

The Spanish-American war of 1898 was only a matter of months. Therefore the bond quotations might be analyzed in terms of months, and they show a typical depreciation during the period of the war, with a substantial rise afterward. The United States 4s of 1907 were quoted in March, 1898, at a range of 110-113. The range in April, the first month of the war, was 107-111; in May, 108-111¼, and it remained at about this level until December, the end of the war, when the range was 112½-113½. In 1899, the year after the war, the range for the year was 112-115½, which was slightly higher than the prices for these bonds obtaining before the war. Similar changes took place in other United States bonds during this period.

The United States 4s of 1925, while not showing a very marked decline during the Spanish War, did show a notable rise the year afterward. Their range for 1897 was from a low of 120⅝ to a high of 129½. The year of the war the low price sank to 117¾ and the high during the war period was only 128½. But in 1899 they rebounded sharply, the high for that year being 134½ and the low 128.

Therefore, in their present market quotations below par, United States Liberty bonds are simply following the trait of their kind as they normally might be expected to do. By the same token, after the war is over there is no reason to expect otherwise than that they will return to par and then go above par.